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SUBJECT: IRAN REFINED PRODUCT SANCTIONS: THE VIEW FROM THE UAE

REF: DOE/EIA IRAN COUNTRY ANALYSIS BRIEF

CLASSIFIED BY AMBASSADOR RICHARD G. OLSON FOR REASONS 1.4 B AND D.

11. (C) SUMMARY. The UAE's ties to Iranian refined product markets are likely limited to Dubai's involvement as a logistical hub for the storage and transshipment of these products. However, the UAE diesel market provides some relevant insight into the impact of refined product sanctions on Iran. UAE diesel shortages and pricing discrepancies have driven the development of diesel smuggling, both domestic and foreign. Smugglers, long established in the region, could quickly reconfigure their operations to supply Iran with diesel; disrupting these nimble and small scale operators would be a significant challenge. END SUMMARY.

UAE TIES TO IRAN'S REFINED PRODUCTS

12. (C) Detailed UAE trade data is not available, as official statistics only include non-oil exports. However, senior ADNOC officials have told EconOff that they do not believe any ADNOC refined products are sold to Iran. DOE (ref) and press reports support this analysis, with most analysts agreeing that Iran's refined products come from European and Indian companies. Some reports indicate that these products may transit through Dubai's Jebel Ali port. While Jebel Ali is a major logistics hub, 2008 UAE trade statistics indicate only \$21 million in petroleum (mineral fuels, oil, waxes and bituminous substances) re-exports to Iran, while the UAE imported over \$160 million of these products from Iran. (Note: Re-export is the UAE term used for transiting goods. The UAE does not publish complete statistics on UAE hydrocarbon exports. End Note.)

13. (C) Star Energy, a joint venture between German-based Oiltanking and Abu Dhabi's Star Energy Group based in Dubai, is identified in press reports as storing foreign refined products destined for Iran in Jebel Ali. On October 8, PolEconOff spoke with a Star Energy manager, who confirmed that the firm operates a refined product storage terminal at Jebel Ali. Star Energy does not trade in refined products, rather it facilitates storage for clients in its 32 tanks. While the manager would not confirm any details about Star's clients, he indicated the U.S. Navy uses Star for refined storage. (Note: U.S. Navy CTF-53 confirmed the Defense Energy Support Center stores aircraft and ship fuel in Star Energy storage tanks. End Note.) The manager refused to provide details on the origin or destination for fuel stored in its tanks.

14. (C) Although it is possible that some refined products destined for Iran are transiting the UAE, the Mission also has evidence that Iranian refined products are being exported to the UAE. EmbOffs have met Iranian nationals who smuggle Iranian diesel in 55 gallon drums into the UAE by dhow. These smugglers report they make a good profit, as Iranian diesel prices are low relative to UAE prices. In recent weeks, smugglers are now complaining that the Iranian

Government has clamped down significantly on smuggling over the last several months in anticipation that refined product sanctions were imminent.

REFINED PRODUCTS IN THE UAE

¶5. (C) Although the UAE is an oil exporter, there is a shortage of diesel products within the country. Refinery capacity in the UAE has not kept pace with rising demand, and ADNOC is currently developing two large refineries at Taweelah and Fujairah. The former is likely to be primarily to meet domestic demand. The latter, given its location on the Indian Ocean, may produce refined products for export. However, ADNOC also sells refined products throughout the UAE (with the exception of Dubai) and this refinery's production may be used domestically.

¶6. (C) As the UAE's oil reserves are concentrated in - and belong to - Abu Dhabi Emirate, diesel is cheaper and more plentiful in Abu Dhabi than in Dubai and the Northern Emirates. Dubai's real estate boom into early 2008 drove growing demand for diesel, leading trucks to drive to Abu Dhabi to take advantage of lower prices. ADNOC implemented a policy to ban residents of other emirates from buying diesel in Abu Dhabi, but that only encouraged smuggling from other locations. In addition to the Iranian smuggling discussed in para 4, Saudi Arabia is also reportedly concerned that Saudi diesel (even cheaper than Abu Dhabi's) is being smuggled into the UAE. A Western consultant told EconOff in late 2008 that he was studying Saudi diesel smuggling into the small Gulf states (presumably on behalf of Aramco).

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¶7. (C) Comment: While the UAE's diesel shortages and smuggling problems may seem irrelevant in the Iranian sanctions context, in fact they are indicative of the challenges of sanctioned refined product trade in the Gulf. Where shortages exist, smuggling booms and the Gulf dhow trade is quick to respond. Just as dhows were used to smuggle Iraqi oil out of the Gulf, these same traders will likely be quick to supply Iran with refined products if needed. Disrupting this trade would be a significant logistical challenge that will require extensive consultation and support from Gulf states. End Comment.
OLSON